

30 April 2012

**CHINA NEW ENERGY LIMITED**  
**("CNE" or the "Company" or the "Group")**

**Agreement of Intent to Develop a £20 million Biofuel Facility in Jilin Province, China**

The Board of China New Energy Limited is pleased to announce that the Company has entered into an Agreement of Intent with a Chinese State-Owned ethanol producer, which has a total of 600,000 tonnes of ethanol production capacity, to convert an existing facility into a more efficient and advanced facility with a capacity of 50,000 tonnes of biofuel per year.

**Summary**

- Under the Agreement of Intent, CNE will provide technology solutions to modify and convert an existing ethanol production facility which currently converts corn into ethanol into a commercial-scale production facility capable of converting non-edible “cellulosic” plant waste into acetone, butanol and ethanol (the “Jilin Biofuel Facility” or the “Project”).
- This Project reflects China’s efforts to move away from grain-based ethanol production into alternative, sustainable feedstocks and is pioneering in its development of technology for this purpose.
- The Agreement of Intent was entered into with a wholly owned subsidiary of Jilin Ethanol Industrial Company Limited (“JEIC”), a State-Owned conglomerate focused on ethanol production with an annual corn processing capacity of 2,000,000 tonnes and an annual ethanol production capacity of 600,000 tonnes.
- Under the Agreement of Intent, JEIC’s subsidiary has the responsibility to invest 200 million RMB (circa £20 million) (the “Investment”) into the conversion and modification of its existing facility. Should the project proceed in accordance with the Agreement of Intent, CNE could generate up to £20 million of revenue by the end of 2013.
- CNE may, subject to negotiation and funding ability, be able to participate in the Jilin Biofuel Facility on an equity basis through contribution of technology and/or cash funds. Such participation is conditional on mutually agreed valuations of CNE’s contribution and the existing facility.
- The Agreement of Intent also contains the following “conditions of cooperation”:
  - i. Approval of the Jilin Biofuel Facility by the relevant authorities
  - ii. The subsidiary of JEIC raising the capital required for the project
  - iii. CNE’s technology constituting its own proprietary or patented technology
  - iv. Further due diligence
- The parties will strive to complete the Project by 31 December 2013.

## **Project**

The Agreement of Intent is with Jilin Tianshun Biochemical Development Company Limited (“Tianshun”), a subsidiary of JEIC, for the production of biofuel using cellulosic materials (non-edible agricultural waste).

Under the Agreement, CNE and Tianshun will modify and convert an existing JEIC production facility in Jilin into a commercial-scale, integrated facility to commercialise CNE’s proprietary technology for cellulosic ethanol and butanol production. The Jilin Biofuel Facility is expected to be completed by the end of 2013 and will have an annual production capacity of 50,000 tonnes per annum of Acetone, Butanol and Ethanol (“ABE”). The total cost of the developing Jilin Facility is expected to be approximately RMB 200 million (circa £20 million). Subject to further negotiation and funding ability, CNE may participate in the Project on a turnkey basis or as co-investor in Jilin Facility.

## **Significance for CNE**

The Board believes the Jilin Biofuel Facility will play a critical role in the development and scale-up of CNE’s future biofuel and biochemical technology platforms based on the biological conversion to biofuels using sustainable, low cost feedstocks. Approximately 80 per cent. of fuel-grade ethanol is produced from corn. The Board, therefore, believes that the successful completion of the Project, which is intended to process the waste material from corn crops, will be a significant milestone in meeting both China’s energy objectives and its food security objectives.

## **Background of JEIC and Tianshun**

Tianshun was established to exploit and commercialise technology and engineering solutions in the field of bioethanol and biochemical production. JEIC is amalgamation of a number of state-owned ethanol producers in Jilin Province. JEIC currently has an annual corn processing capacity of 2,000,000 tonnes, annual ethanol production capacity of 600,000 tonnes and a 25 per cent. interest in a further 500,000 tonnes of annual biofuel-grade ethanol capacity. JEIC is targeting an increase its annual ethanol production to 1,000,000 tonnes by 2013 which, the Board believes, would make it the largest ethanol producer in Asia. The project is subject to further due diligence by Tianshun securing the necessary funding and approvals to commence construction.

## **Technology and Services to be Deployed**

Under the Agreement, which has been made through CNE’s subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co., Ltd, (“ZKTY”) CNE will provide the technology and services to construct the Jilin Biofuel Facility. The process essentially

involves a pre-treatment to reduce the different chemical components of cellulosic biomass using unique combinations of acid, steam and other specific catalysts (such as ionic liquids) followed by enzymatic digestion of cellulose and/or hemicelluloses.

As a direct result of this innovation, CNE will offer JEIC process technologies to ferment raw feed stock materials using corn starch, instead of dry milled corn, thus enabling JIEC to generate additional revenue streams through the capture of co-products and by-products such as Acetone, Butanol and Ethanol and biogases.

CNE has successfully deployed its process technology on a demonstration facility at Yingkou city, Liaoning province. Based on experiments at this facility, CNE's cost of producing biobutanol from cellulosic material is approximately RMB 9,000 (£900) per tonne against a market price of approximately RMB 10,000 to RMB 11,000 (circa £1,000 to £1,100) per tonne.

### **About Cellulosic Biofuel**

Cellulosic biofuel is produced from wood, grasses, or the non-edible parts of plants. It has the advantage of being an abundant and diverse raw material compared to common sources such as corn and cane sugars, but requires a greater amount of processing to make the sugar monomers available to the microorganisms that are typically used to produce ethanol by fermentation. Cellulose is contained in nearly every natural, free-growing plant, tree, and bush all over the world. One of the benefits of cellulosic biofuel is that it reduces greenhouse gas emissions (GHG) by 85 per cent. over reformulated gasoline. In contrast, starch ethanol (e.g., from corn), which most frequently uses natural gas to provide energy for the process, may not reduce GHG emissions at all depending on how the starch-based feedstock is produced. A study report by Novozymes and McKinsey predicts that cellulosic bioethanol could be substituted for 31 million tonnes of petrol by 2020, bringing about RMB96 billion (circa £9.6 billion) worth of construction contracts from now to then.

**Mr. Weijun Yu, Executive Chairman of CNE**, commented: "This facility is a significant component of our plan to advance the Company's cellulosic ethanol and butanol strategy and maintain a market share of more than 50% in providing technology and engineering solutions to China's bioethanol and biobutanol industry.

"The Agreement demonstrates CNE's fully integrated end-to-end capability, from bioscience research development and deployment through to finalising the capital project. By developing and deploying robust technology at the new facility, CNE will successfully demonstrate the capability to provide the technology and engineering solutions for use in bioethanol and biobutanol production in China and around the world."

For further information please contact:

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### **About China New Energy Limited**

China New Energy Limited listed on London's AIM Market in May 2011. CNE is a profitable and growing technology and engineering solutions provider, whose operations are based in China, for bioethanol and biobutanol projects.

Through its wholly owned subsidiary, Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd ("ZKTY"), CNE provides process technology, engineering designs, plant manufacturing and operational services in connection with the production of, inter alia, fuel ethanol, edible ethanol, biobutanol, bioacetic acid and other chemicals from agricultural plant materials and waste. CNE's activities are principally based in the PRC, however, it also provides services to overseas customers in areas including Romania, Taiwan, Russia, Thailand and Indonesia. Since its formation, ZKTY has advised on more than 90 projects with an aggregate production capacity of approximately 9.0 million tonnes per year.

ZKTY has proprietary and patented bioenergy technology, and maintains its own research and development laboratory to further develop its technology and patent portfolio. ZKTY has received international standards accreditations, including ISO 9001:2000, ISO 9001:2008 and CE marking for part of its equipment.